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Decision 03-03-032 March 13, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Consider the Line Extension Rules of Electric and Gas Utilities.	Rulemaking 92-03-050 (Filed March 31, 1992)

(See Appendix A for a list of appearances.)

ALTERNATE OPINION OF COMMISSIONER WOOD ON PROPOSED FREE INSPECTIONS AND ACCOUNTING CHANGES FOR LINE EXTENSIONS

I. Summary

This decision addresses further proposed changes to the Line Extension Rules governing the extension of gas and electric service to new customers. In today's decision, we conclude as follows: (1) For applicant-installed projects, we reject a proposal to provide free inspections at ratepayer expense, but accept a proposal to allow the cost of inspections to be absorbed by the line extension allowances, where available; (2) for utility-installed projects, we reject an accounting change proposal to charge or credit utility shareholders the difference between the utility's bid amount and the utility's finished cost; and (3) for applicant-installed projects, we adopt an accounting change proposal that will require the utility to book to ratebase the lower of the utility's bid amount or the applicant's cost.

We, also conclude that the inspection payments by applicants for applicant-installed projects, currently held in memorandum accounts by the utilities, should be credited to the utilities' plant-in-service accounts to reduce ratebase.

With this decision, the proceeding is closed.

II. Procedural Summary

Following several prehearing conferences, rulings by the assigned administrative law judge (ALJ), and an assigned Commissioner's ruling dated June 11, 2001, hearings on the issues remaining in this proceeding were held on January 22 and 23, 2002. This matter was submitted for decision on May 2, 2002, following the filing of briefs.

Opening and reply briefs were filed by Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE), collectively referred to as Joint Utility Respondents (JUR)[1], the California Building Industry Association (CBIA), The Utility Reform Network and Utility Consumers' Action Network (TURN/UCAN), and Utility Services Group (USG).[2]

III. Statement of the Case

The issues decided today arise from two earlier decisions. First, in Decision (D.) 99-06-079, the Commission, among other things, allowed applicants

[1] The Southwest Gas Company is also a member of the JUR, but did not file briefs.

[2] USG comprises Utility Design, Inc. (UDI), Utility Service & Electric, and Pacific Utility Installation.

who selected the applicant-installed option a "first inspection of each section of trench of their projects at no charge to the applicant." The related issue we address now concerns cost responsibility when the utility inspects applicant-installed work. Second, in D.97-12-099, the Commission included what has come to be known as "Paragraph 2," which purported to address accounting changes related to the applicant design process. That decision spawned the last two issues in this case relating to accounting for line extension costs.

IV. The Free Inspection Issue

When the Commission decided in 1985 to allow applicant installation of line extension facilities, it specifically adopted the principle that the applicant should bear the costs imposed on the utility to inspect the applicant's work. Accordingly, the utilities implemented a non-refundable inspection fee requirement paid by the applicant to cover the incremental cost of inspection (D.85-08-045). Subsequently, in D.99-06-079, the Commission decided to allow a first inspection of each section of trench at no charge to the applicants on applicant-installed projects. The Commission stated:

> "Our concern is that an applicant who chooses applicant-installation is required to pay additional inspection charges that the applicant who chooses utility-installation would not pay. This does not provide a level playing field. Therefore, we will adopt UDI's recommendation that applicant-installed projects be allowed one inspection at no charge for each section of trench; additional inspections of previously inspected sections of trench would be charged to the applicant. As pointed out by CBIA, one free inspection puts the competitor on an equal basis with the utility." (D.99-06-079, mimeo., p. 15.)

That decision generated related subsequent pleadings. UDI, on July 23, 1999, filed a petition to modify, arguing that the phrase "each section of trench" was ambiguous. On July 26, 1999, the JUR applied for rehearing, asserting legal

error in the decision and requesting a stay of the order. The Commission on September 2, 1999, stayed the order, and directed the JUR to set up tracking and memorandum accounts for the disputed charges. On January 6, 2000, the Commission denied the JUR petition for rehearing as a matter of law, but noted that a petition for modification would be the appropriate mechanisms to raise policy and clarification questions, as UDI had done in regard to this order. Accordingly, the JUR, on April 5, 2000, filed a petition for modification challenging the decision favoring a "free" first inspection on the policy ground that it increased costs to ratepayers. Since there was an insufficient record to address the petitions, at the ALJ's direction prepared testimony was provided by the parties and an evidentiary hearing held. Today's decision reflects the augmented record.

A. Positions of the Parties

The JUR take the position that applicants, rather than the greater body of ratepayers, should continue to pay for the incremental cost associated with inspecting applicant-installed facilities and therefore no change in existing practices should be adopted. USG proposes to shift to ratepayers the incremental applicant-installed inspection costs in order to enable third party installers to be more competitive. Likewise, CBIA believes that applicant-installed inspection costs are an expense properly borne by ratepayers. TURN/UCAN would allow inspection fees to become part of the job costs subject to allowances, but only if TURN/UCAN's proposed accounting change is adopted to require the utilities to use the applicant's reported cost, or the utility's estimate, whichever is lower, for purposes of recording line extensions to rate base for applicant-installed jobs. If the Commission does not adopt TURN/UCAN's accounting proposal for applicant-installed jobs, TURN/UCAN agree with the JUR that applicants

should bear the full incremental cost associated with the inspection of applicant-installed facilities.

B. Discussion

While the requirement in D.99-06-079 that the utilities allow one inspection at no charge for each section of trench may seem simple on its face, there are problems with its implementation.[3] In sum, the testimony is that there is no workable definition of what would constitute such an inspection. For that reason alone, we are persuaded that the free inspection requirement should be dropped, notwithstanding the policy considerations we discuss below that dictate against charging these costs to ratepayers.

Applicant-installed line extensions cause incremental cost for inspection that are not incurred when the utility performs the work. When the utility performs the work, the utility foreman is charged with ensuring that the

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[3] SoCalGas witness Frank Galvery testified that the term "section of trench" is ambiguous, it could mean that in some situations each street could be viewed as a section, it could mean a specific time period or refer to each utility operation, or it could refer to the joints at the ends of each 1,000-foot roll of plastic pipe used for gas lines.

SCE witness Mathew Deathrage testified that SCE was unclear as to what a "section" meant. He stated that a section does not necessarily mean a structure-to-structure type termination, but instead could mean certain footage or a block.

PG&E witness Parker testified that PG&E does provide applicants with a free inspection of the trench; however, there is confusion whether the free inspection would apply to facilities. Also, according to Parker, it would be a "logistical nightmare" to define a "first inspection" since inspectors often re-inspect work that did not pass, at the same time as they inspect new work. Thus, there would be controversy regarding the allocation of the inspectors' time.

SDG&E witness David Dohren testified that there was uncertainty whether the free inspection applied to the trench or the facilities.

work conforms to all governmental and utility codes, ordinances and standards, and inspection is integrated into the construction process. On the other hand, when applicants elect to perform the work, and a non-utility contractor performs the construction, the utility has no choice but to inspect the work to ensure that the public is protected from unsafe conditions resulting from improperly installed facilities, and ratepayers are protected from the maintenance costs that would flow from defectively installed facilities. This leads to incremental costs.[4] The question is whether the applicants or ratepayers should be responsible for these costs.

The Commission has a long history of matching cost with cost causers in the line extension area. When the Commission decided to allow applicant installation of line extension facilities in 1985, it specifically ordered that the applicants "shall pay to the Utility, as a non-refundable amount, the cost of inspection." (D.85-08-045.) This provision of the decision is consistent with the Commission's later-stated policy of assigning costs to the party that causes the costs. In other words, the applicant is free to choose a third-party installer if it has a business reason to do so, but it must absorb the additional costs of inspection associated with that decision. Also, see D.94-12-026, mimeo., p. 2; and D.97-12-098, mimeo., p. 1; where the Commission affirms its policy that applicants should pay all costs associated with their projects that are not revenue justified.

[4] We would expect that in making these inspections, the utilities would provide written reports that identify, at a minimum, what aspects of the project are being inspected, what tariff or General Order is not being complied with, and what recognized industry practice, code, or standard is being violated. The parties may wish to address these practices in the compliance advice letters, or in protests to those advice letters.

However, in 1999, when the Commission talked about creating a "level playing field" to promote competition by allowing applicant installers one free inspection for each section of trench (D.99-06-079), the Commission did not address the resulting cost burden and whether ratepayers should pay for the cost of inspections not supported by expected revenues, contrary to D.94-12-026. That is the issue now before us.

We keep in mind that applicants already receive allowances and refunds for costs that are supported by expected revenues. Free inspections would create a subsidy for new construction projects at ratepayer expense in the name of creating more opportunities for third-party installers. Therefore, the question is whether there is an overriding public policy reason for requiring ratepayers to assume these costs. We say "No" and affirm the Commission's long standing policy of requiring applicants for line extensions, whether utility installed or applicant installed, to pay for all costs that are not revenue justified consistent with D.85-08-045 and D.99-06-079.

As the testimony shows, a developer's choice between utility installation and applicant installation represents a business decision. The additional cost of utility inspections may not drive the developers' decision regarding applicant installation where developers are primarily concerned with timing, control, and scheduling of their project.

Moreover, as pointed out by the JUR, third-party installers may offer value that utilities cannot. Unlike utilities, private contractors can vary the terms of their contracts, adjust their profit margin, and allow for progress payments.[5]

[5] In contrast, the utilities require up-front payment of their estimated cost less allowances before undertaking a project.

In addition, they are not subject to being taken off a job in the event of a utility system emergency. These are all factors that help a private contractor to compete for a project. Thus, the incremental cost of inspection of applicant-installed facilities alone may not determine whether the utility or the applicant installs the facility. We are not persuaded that extraordinary measures to promote competition are warranted.

In summary, we decline to shift the cost of inspections of applicant-performed line extension work from applicants to ratepayers. Shifting these costs to ratepayers would violate sound Commission policy of matching costs with cost causers and of charging ratepayers only with the revenue-justified costs of line extensions. Accordingly, we will modify D.99-06-079 to eliminate free inspections. We will continue to hold applicants responsible for incremental inspection costs on applicant-installed projects, and dissolve the memorandum accounts[6] established under D.99-09-034 for such inspection charges.

However, consistent with a proposal put forward by TURN/UCAN we will allow inspection fees to become part of the job costs subject to line extension allowances. As long as the total ratepayer exposure cannot exceed the utility's estimated cost for doing the same work, and as long as the utilities provide reasonably accurate estimates, this change will not cause ratepayers to face costs any greater than those that would result from a utility installation. In this context, it is reasonable to allow applicants to benefit from line extension allowances for inspection costs related to their line extensions.

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[6] There was $3.7 million recorded in these memorandum accounts as of May, 2001. This amount should be credited to the utilities' plant-in-service accounts to reduce ratebase.

C. USG's Flat Across-The-Board Fee Proposal

As an alternative to free inspections for each section of trench, USG proposes a flat rate fee to applicants in all instances, whether the line extension facilities are installed by the utility or by the applicant.

We conclude that USG's proposal is fundamentally unfair to applicants who choose the utility to do the work because such applicants do not cause incremental inspection costs. Since it is not consistent with cost causation principals and does not send proper price signals, USG's flat rate fee proposal is rejected.

V. The Accounting Issues[7]

In D.97-12-099, the Commission made permanent the option for an applicant to select a non-utility designer for a line extension project.[8] The Commission also apparently attempted to specify an accounting approach for the utilities to follow when the utilities bid on a design job. It wrote:

> "Additionally, we will require the utility to book to its accounts the utility's bid amount, whether the design was done by the utility or an applicant. If the utility's actual cost was more than the bid amount, the utility would write off the excess. If the cost was less than the bid, the utility would provide the applicant with a credit equal to the utility's bid amount less any appropriate charges such as for plan checking." (Mimeo. at 7.)

This requirement came to be called "Paragraph 2."

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[7] The two accounting issues identified by the ALJ in his March 15, 2000 ruling are combined for purposes of this decision.

[8] Earlier, in D.95-12-013, the Commission had approved a 24-month pilot program to test the feasibility of an applicant design option.

On April 27, 1998, SCE and PG&E filed a petition for clarification regarding that language. The Commission responded with D.99-06-047, in which it held that the record in D.97-12-079 was insufficient to address the necessity for, or any changes to, utility accounting procedures. The Commission ordered the assigned ALJ to develop a record to address what accounting changes, if any, should be made in the context of the applicant design process.

D.99-06-047 gave rise to two petitions for modification. CBIA filed one in which it asked that the accounting treatment for applicant design also apply to applicant-installed projects. USG similarly petitioned for modification urging the same change as CBIA. Consistent with an ALJ ruling, parties offered evidence on the CBIA/USG proposal.

A. Proposed Accounting Treatment for Utility-Designed and Utility-Installed Line Extension Projects

Under USG's proposal, supported by CBIA, the utility's cost estimate would always be booked to ratebase, whether the utility's actual cost was above or below the utility's cost estimate.[9] Thus, if the actual cost should exceed the estimated cost, utility shareholders would absorb the amount in excess of the

[9] USG's comments on the ALJ's proposed decision advocate a position that is different from the position it had taken in this proceeding. Previously, USG proposed that the utility book its estimate to ratebase, and then any overruns or underruns would be absorbed by the shareholders. Now, USG proposes something entirely different, which is that for utility-performed work, the utility would book the lower of the estimated costs or actual costs, and when applicants perform the work, the utilities book the actual costs. As a procedural matter, we must reject this proposal because it is simply too late in the proceeding to offer a brand new proposal unsupported by record evidence and not subject to cross-examination.

estimate. If the actual cost is less than the estimate, utility shareholders would benefit by the difference between the actual cost and the estimated cost.

1. Position of USG

USG argues that its proposed accounting treatment is necessary to ensure that the utilities compete fairly with third-party contractors. According to USG, without such accounting treatment, the utilities would engage in anticompetitive behavior by making below-cost bids to obtain the work, and then charging the ratepayers for the actual cost, even if major cost overruns occurred.

USG contends that, for years, the utilities have enjoyed an unfair advantage over applicant third-party contractors, because when a utility designs or constructs a line extension, all their costs are paid for by ratepayers. On the other hand, when the applicant performs the design or installation, the applicant only gets reimbursed the line extension allowances. USG submits that having ratepayers pay all of the utilities' line extension costs is simply wrong and creates an unfair incentive for the applicant to choose the utility for the work.

2. Position of CBIA

CBIA supports USG's accounting recommendation because CBIA believes that it would promote development of a more competitive market for applicant-design and installation services, with the expectation that the competitive discipline of the market for such services will inevitably lead to lower costs for line extension applicants and ratepayers alike. According to CBIA, its goal is for applicants to have the opportunity to make an unbiased election between "utility versus third-party" services without incurring unreasonable and unrealistic financial penalties or project delay.

3. Position of TURN/UCAN

TURN/UCAN do not take a position on USG's proposed accounting change for utility-installed line extensions. However, TURN/UCAN recommend that the Commission adopt outcomes that promote ratepayer interests. TURN/UCAN argue that rather than continue to embrace outcomes that serve to promote "competition" as a goal in itself, the Commission should only rely on competition when doing so serves to promote ratepayer interests.

4. Position of the JUR

The JUR oppose USG's proposal requiring shareholders to bear the risk or receive the benefits of the difference in the utility's bid and its actual cost when the utility installs the project. The JUR argue that USG's proposal seeks to transform utilities into profit-driven providers of line extension services by introducing financial risks and rewards into the bidding process.

According to the JUR, USG's proposal would incline utilities to bid higher than normal to ensure that shareholders are not exposed to financial risk. Further, the JUR contend that instead of providing a benefit, USG's proposal would drive up the cost of line extensions for applicants. Third-party contractors would be free to increase their bids to a level just below the utility's bid enabling the applicant-installer to both win the job and maximize profits, all at the expense of applicants and ratepayers.[10]

5. Discussion

It is logical to be concerned that current accounting practices do not provide the utilities with an incentive to provide estimates that are closely

[10] The utilities are required to provide applicants with bids, which the applicants may then use to shop for lower bids from third-party contractors.

related to actual costs. Each utility knows that it will recover its full cost for a line extension, even if that cost exceeds its estimate. No party has suggested that utility estimators are motivated, under current rules, to inflate their estimates. To the contrary, it is conceivable that a utility could benefit from under-estimating a project, safe with the knowledge that it ultimately would recover all of its cost, if by doing so it could win work for its own employees to perform, during times when those employees are not needed for other scheduled or emergency work.

From the perspective of a private contractor that is hoping to capture some of this work, these theoretical incentives could be cause for distress. However, the record does not demonstrate that the current rules have actually resulted in an unreasonable disparity between estimates and costs for utility-installed projects.[11] Neither is it clear that the USG proposal would lead to more accurate utility estimates.

The utilities argue that the USG proposal, if adopted, would cause the utilities to systematically overstate the potential costs (leading to greater charges to ratebase), in order to protect shareholders from losses resulting when the actual cost would exceed the estimate. We can only guess as to whether the utilities would systematically overstate their bids. However, it is equally as speculative to assume that the USG approach would lead to more accurate charges. We will not adopt new rules based on the hope that everything would

[11] We note that in a ruling dated September 28, 2001, the ALJ granted a motion of JUR to strike portions of CBIA's testimony related to design credits, the bidding process, anti-competitive behavior, overtime, General Order 165, and the amount of the credit. The record in this proceeding does not address these issues and this order is not intended to prejudge any related issues that may be properly raised in a complaint or other forum.

work out to the advantage of ratepayers and third partly contractors. We would first need a clearer indication that a problem exists and that a proposed change is reasonably likely to mitigate or eliminate that problem.

If the Commission wanted, above all else, to emphasize expansion of a competitive market for line extension work and require utilities to absorb the risk of inaccurate bids, it would have to allow a utility to decide which projects it wants to undertake. It is inconsistent to require a utility to use accounting treatment similar to a private firm while at the same time requiring it to provide traditional cost-based construction of utility infrastructure upon request, especially for jobs that third-party contractors do not want. To the contrary, it is our intention to reinforce the utilities' obligation to serve and to ensure that each utility remains ready and able to furnish necessary infrastructure whenever it is needed.

USG takes issue with the fact that a utility is able to recover its cost, while an applicant cannot if its actual cost exceeds its estimate. The utility is not comparable to an applicant-installer, because the utility fulfills a distinct function in the line extension process. The applicant is only concerned with installing the necessary facilities to serve its development. In contrast, the utility is regulated, is obligated to undertake projects that third-party contractors reject, and is compelled by law to make investments in the distribution grid.[12] Given the obligation to serve, it is only reasonable that the utilities be allowed to recover reasonable costs.

[12] See Pub. Util. Code § 399.2.

When a utility's actual cost of a job is less than its estimate, the difference is reflected in lower ratebase, just as an overrun would be recorded to ratebase.[13] The theory is that over time, the overruns and underruns offset each other; therefore, the net effect on ratebase resulting from differences between estimates and actual cost, should be minimal.[14] Each utility retains the obligation to demonstrate, in each general rate case or other appropriate rate proceeding, that the line extension costs it is recording are both accurate and reasonable. That is the basis for current accounting practices related to utility-installed extensions, and there is no compelling reason to change it. For the reasons set forth above, we conclude that USG's accounting proposal should be rejected.

B. Proposed Accounting Treatment for Applicant-Designed and Applicant-Installed Line Extensions

TURN / UCAN seek to limit the addition to the utility's ratebase on applicant-installed projects to the lower of the utility's installation bid or the applicant's cost.[15]

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[13] We recognize that the practice of recording to ratebase cost overruns even to the extent that the costs exceed the revenue-based allowance is a matter of dispute, and do not intend to address here the merits of any proposal to modify that practice.

[14] As SCE witness Helvin testified: "I might point out – back to my earlier example – to simplify it, with a $15,000 estimate, if the utility does the work and spends $19,000 it is true that there is an incremental $4,000 increase to ratebase. But likewise, if the utility spends $11,000, the increase to ratebase is decreased by $4,000. The concept is that it should all average out being based on the estimate."

[15] On applicant-designed and applicant-installed projects that produce anticipated revenues, the utilities currently book to ratebase their bid amounts as a proxy for the actual cost.

1. Position of TURN/UCAN

TURN/UCAN argue that the Commission has treated line extensions as "competitive" because an applicant can choose someone other than the utility to install a line extension, yet the benefits of such competition are not shared with the utility's ratepayers. TURN/UCAN point out that if an applicant installs a line extension, the amount added to the utility's ratebase is the amount the utility estimated as its cost for performing the installation, even when the applicant's actual costs are far less. As TURN/UCAN characterize it, the utility wins either way: Either it performs the work and recovers its recorded costs, plus the return it has the opportunity to earn on its ratebase, or it does not perform the work, incurs no direct cost itself, but records to ratebase its estimated cost of performing the work (creating, again, the opportunity to earn a return on the recorded ratebase amount). TURN/UCAN also point out that the applicant can choose to avoid the risk of cost overruns by accepting the utility's bid, having the utility perform the installation, and assigning to the utility's ratepayers the risk of cost overruns. Alternatively, if the applicant receives a bid from a non-utility installer that offers cost savings, the applicant can choose the lower-cost route. TURN/UCAN contend that ratepayers bear the risk of utility cost overruns, even to the extent that the overruns cause the utility's costs to exceed the revenue-based allowance, yet they receive none of the benefits of the potential cost savings from non-utility installations.

2. Position of the JUR

The JUR argue that the TURN/UCAN proposal assumes that one can accurately determine an applicant's cost and that the cost reported by the applicant is a fair measure of the value of the installed facilities. The JUR submit that neither assumption is accurate. The JUR witnesses say that neither the

utility nor the Commission may compel an applicant to accurately or timely report its final project cost. Thus, the JUR contend that under this proposal, the entire system of ratebase refunds, and allowances, would be based on the naive expectation that applicants will provide timely and accurate cost data.

Further, the JUR argue that, since there is currently no oversight of applicants, it is fair to anticipate that some applicants or applicant-installers will game the system if it is to their economic advantage. SCE, in its opening testimony, provided one example of where an applicant might report higher costs than were paid by the applicant to maximize the refundable amount. In other instances, as suggested by SoCalGas, an applicant might report an artificially lower amount to minimize its tax liability. In either situation, the utility would be compelled to record an amount that does not accurately reflect the value of the installation, thus distorting everything that flows from those cost numbers, including, but not limited to, the refundable amount and ratebase.

3. Discussion

In his proposed decision, the ALJ rejects the TURN / UCAN proposal, observing that, as the amount now booked to ratebase for applicant-performed work is capped at allowances plus refunds, the utility's estimate for work performed by the applicant has no impact on ratebase under current procedures. This is not the case, since the utility estimate defines the boundaries for the sum that may eventually appear in ratebase (refunds plus allowance will not exceed the utility estimate). Thus, whether or not the actual cost for a third-party installation exceeds the line extension allowance, there would be potential for ratepayer savings if the actual cost is less than the utility estimate.

The utilities argue that there would be significant administrative costs related to verifying that the reported third-party actual costs are accurate

and complete. TURN/UCAN, on the other hand, assert that the utilities are exaggerating the administrative burden that the proposed accounting change would produce. We are not persuaded that the utilities should need to undertake expensive verification efforts. If an applicant were to overstate its costs, the utility estimate would protect ratepayers from charges greater than those that the utility would charge for the same work. If the contractor were to understate its costs, the result would be less exposure for ratepayers in the form of allowances and refunds reflected in ratebase. TURN/UCAN point out that the utilities can receive a simple and accurate accounting of the third-party billed cost by requiring the customer to submit an invoice and verified statement prior to receiving any refunds. Because the TURN/UCAN proposal provides an opportunity for cost savings without creating any new ratepayer risk or causing the utilities to undertake any new unrecoverable expenses, it is reasonable to adopt the proposal and we will do so here.

VI. Comments on the Alternate

The alternate draft decision of Carl Wood was mailed to the parties in accordance with Pub. Util. Code § 311(g) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on January 23, 2003 and reply comments were filed on January 28, 2003.

VII. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner and Bertram Patrick is the assigned ALJ in this proceeding.

Findings of Fact

1. The utilities incur incremental inspection costs for inspecting applicant-installed facilities when the applicant performs the line extension installation.

2. In D.99-06-079, the Commission decided to promote competition by allowing applicant installers one free inspection for each section of trench.

3. In D.99-06-079, the Commission did not address the issue of whether the ratepayers should be required to pay the incremental cost caused by the decision of the applicant to choose the applicant-installed option.

4. Existing inspection fees provide the proper incentive to applicants to minimize utility inspection costs.

5. The proponents of the USG accounting change proposal have not clearly established that a problem exists and that the proposed change is reasonably likely to mitigate or eliminate that problem.

6. The TURN/UCAN accounting change proposal creates a realistic opportunity for ratepayer savings.

7. The utilities should not have to face significant new costs in implementing the TURN/UCAN accounting change.

Conclusions of Law

1. Consistent with the Commission's policy of assigning costs to cost causers, the economic burden of incremental inspection costs caused by applicants electing to use third-party contractors should be assigned to these applicants.

2. The incremental utility cost associated with inspecting applicant line extension installations should continue to be borne by the applicant because the applicant causes these costs to be incurred by the election to use a third-party contractor to install the line extension facilities.

3. The USG accounting change proposal should not be adopted.

4. The TURN/UCAN accounting change proposal should be adopted.

5. Applicants should be allowed to apply otherwise-available line extension allowances to the cost of utility inspections to the extent that the over-all cost does not exceed the utility's estimated cost for the same project.

6. Today's order should be made effective immediately to resolve long-standing issues as soon as possible.

O R D E R

IT IS ORDERED that:

1. The proposal to provide free inspections at ratepayer expense for applicant-installed line extension projects is rejected, and Decision (D.) 99-06-079 is modified accordingly.

2. The memorandum accounts established by D.99-09-034 to track applicant-installation inspection fees are hereby terminated.

3. The proposal to change the utilities' accounting procedures to charge or credit utility shareholders the difference between the utilities' bid amounts and the finished costs for utility-installed projects, is rejected. D.97-12-099, Paragraph 2, is modified accordingly.

4. The proposal to change the utilities' accounting procedures to require the utilities to book to ratebase the lower of the utilities' bid amount or the applicants' costs for applicant-installed projects, is adopted.

5. Future utility service applicants that rely on entities other than the utility to install a line extension, shall be permitted to apply any otherwise-available line extension allowance to some or all of the cost of utility inspections, to the extent that the over-all cost of the installation does not exceed the utility's cost estimate for performing the same work.

6. Within 30 days, Pacific Gas and Electric Company, San Diego Gas and Electric Company, Southern California Edison Company, Southern California Gas Company and Southwest Gas Company shall file advice letters proposing any tariff changes necessary to implement the changes adopted in this order. The advice letters shall be filed in accordance with General Order 96-A and subject to further order of the Commission.

7. This proceeding is closed.

This order is effective today.

Dated March 13, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
LORETTA M. LYNCH
CARL W. WOOD
GEOFFREY F. BROWN
SUSAN KENNEDY
Commissioners